Research Project Prospectus

LEARNING TO MANAGE PERFORMANCE:

EXECUTIVE LEADERSHIP AND ACCOUNTING IN A GOVERNMENT AGENCY

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LEARNING TO MANAGE PERFORMANCE

During the early 1990s, Federal lawmakers reformed a variety of institutional rules bearing on how departments and agencies are managed.   In 1993, for instance, Congress passed the Government Performance and Results Act (GPRA), which President Clinton signed into law. This statute provided for changes in government-wide institutional rules and routines in such areas as expenditure planning, financial management, and evaluation. The intended effects of the GPRA were broadly the same as the Clinton Administration's larger reinventing government effort, whose slogan was to make the Federal government "work better and cost less." The 1990s was thus a time when public management policy change occurred, with the intention of improving the management of government operations and thereby the "performance" of the Federal government.

Like many other kinds of policy interventions, the reinvention efforts could only be successful if they elicited a significant response on the part of the policy's "target groups."   Researchers have begun to examine how, and why, decision-makers within the Federal bureaucracy have responded to changes in public management policies.[1] Even so, ignorance about decision-making at the agency level persists.   Such ignorance needs to be dispelled if policy dialogues about public management are to benefit from the experience of the 1990s.   This book project is undertaken, in part, with this unfulfilled need in mind.

Most research designs on the implementation of public management policies are case-oriented.   Case outcomes are historically-defined phenomena (Ragin 1987), such as prevailing institutional rules and routines in the areas of expenditure planning and

financial management, civil service and labor relations, procurement, organization and methods, and audit and evaluation -- or other attributes related to agencies' "technological capabilities" (Leonard-Barton 1995). For instance, a study of reinvention labs examines changes in the methods used by Federal agencies to analyze and make choices about their technical and managerial systems (Thompson and Ingraham 1996). These case-oriented research designs typically investigate several specific experiences, each of which involves a single organization over a relatively brief span of years. As studies geared to investigating agencies' implementation of public management policies, the main research question is appropriately whether, how, and why agencies have responded to policy choices made by power centers far removed from those managing government operations.

The present research design is also case-oriented, but investigates one historical episode rather than several. The experience studied involves the Air Force Materiel Command (AFMC). During the late 1990s, significant changes were made to this organization's management policies and routines, especially in the area of expenditure planning and financial management. Nonetheless, this story is only loosely connected to the one involving change in government-wide public management policies; it is better understood as a response to particular challenges facing AFMC at the time. Accordingly, the project is not about the implementation of public management policies, but rather about the process of changing an agency's managerial systems as part of a broader strategy to respond to the immediate operating environment.

In the case of AFMC, the process of overhauling expenditure planning and financial management systems was fraught with all sorts of difficulties -- conceptual,

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[1] Radin (2000); Thompson and Ingraham (1996).

organizational, technical, cultural, and political.   The larger plot is one where the protagonists attempted to overcome powerful impersonal forces that inhibit government agencies from making changes in administrative and technical routines so that the organization becomes more efficient.   In this respect, the overall plot is not unlike that of other narrative histories about public management that pepper the literature (e.g., Barzelay 1992). Some of the happenings in this story also parallel others that have been told -- such as taking steps to influence the attitudes and decisions of overseers who set the rules of the game for expenditure planning, as part of the process of making change "within" the organization. However, the details of this story are distinct: for instance, a major source of the doctrinal arguments behind the top executive's intervention -- as well as the principal referent of its outwardly visible rhetoric -- was the functional discipline of accounting, particularly the specialty known as management control.   The doctrinal arguments, plus knowledge of the organization's situation, led the top executive to the diagnostic conclusion that the agency's incapacity to manage costs was a constraint that should be eliminated. This capacity was scant at the start of the story, due to the interplay of accounting systems, organization design, and organizational culture, among other factors. The intervention involved a process that mobilized and directed significant levels of effort -- not least among the top executive's staff -- toward the objective of increasing the agency's "capacity to manage costs."

   While specific features of the intervention were necessarily unique, the intended result -- an enhanced capacity to manage costs -- is typical of interventions undertaken by makers of public management policy and managers of public agencies, when they give priority to administrative values associated with efficient task performance and decide what to do -- specifically and in detail -- by drawing on the functional discipline

of accounting. This scenario may sound unusual, but it has repeatedly occurred in the U.S., and it is characteristic of interventions occurring in the heartland of the New Public Management -- the UK, Australia, and New Zealand -- and elsewhere.[2] The particular intervention was also typical insofar as the potential effects of actions taken for the desired outcome were limited by factors not only present in the particular situation, but elsewhere, too. These factors include an incompatible expenditure planning process operating at higher organizational levels (determining the level of resources allocated to the agency), the use of different systems for expenditure planning and budget execution, the desire to avoid the disruption and resistance sparked by reorganization, built-in tensions between the central office and field units, and the understandable tendency for staff operations and middle managers to assume that their mandate is to adopt currently fashionable management techniques. In this particular event, the potential for the intervention to fall flat or cause harm for the organization was arguably contained, relatedly, the organization's incapacity to manage costs appears to have been remedied, to some degree. Accordingly, an account of this particular intervention can be written as a modest success story involving the implementation of ideas and methods of performance management in a government agency.

Introducing the Air Force Materiel Command and George Babbitt

AFMC is a major command within the U.S. Air Force, just like the Air Combat Command, Transport Command, and Space Command. AFMC's role is primarily that of a functionally centralized provider of services to internal customers. In this respect, AFMC is similar to the Air Education and Training Command (AETC) as well as to

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[2] See Hood and Jackson (1991) and Barzelay (2000, 2001).

providers of "auxiliary services" in other contexts.[3]   AFMC's internal customers are primarily the operational Air Force, whose major activities continue to involve use of fighters, bombers, cargo, and reconnaissance planes. AFMC's own activities include overhauling planes and engines, funding and conducting scientific research, and managing programs involving yet-to-be fielded equipment of all sorts (e.g., communications systems, munitions, and aircraft).   In the late 1990s, the activities conducted by AFMC consumed, on an annual basis, resources valued at more than $30 billion per year, which amounted to nearly half the Air Force's budget and a significant fraction of defense spending.

During the period studied, AFMC was headed by George Babbitt, a military logistician who had previously served in senior roles at the Air Force headquarters in the Pentagon and in Defense agencies. As a three-star general officer, for instance, Babbitt had served as Air Force Deputy Chief of Staff for Supply and Logistics and as Director of the Defense Logistics Agency. By the time he was nominated to become the four-star commander of AFMC, Babbitt had established a reputation not only as a top-notch expert in military logistics, but also as a public manager well practiced in applying business disciplines to the arenas in which he worked.   This reputation was enhanced by General Babbitt's years as AFMC commander, beginning with his assumption of Command in May 1997 at Wright-Patterson Air Force Base, near Dayton, Ohio, and ending with his retirement from the Air Force three years later.

At the outset of his tenure, Babbitt announced that the mission of AFMC was to be efficient as well as effective. To his audience, this statement was remarkable, for the

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[3] The Minnesota Department of Administration, which was featured in Barzelay (1992), is also primarily a functionally centralized provider of services to internal customers.

culture of military organizations is to consider resources available as a *constraint* on accomplishing *the mission*. This belief entails that efficiency is not the mission. Their new commander, however, was convinced that he needed to include the concept of efficiency in the mission, if the organization was to respond appropriately to the strategic issues it faced at the time.   These issues included the sentiment, felt most strongly in the operational Air Force, that AFMC worked fairly well -- but cost way too much.   Babbitt stepped into the commander's role knowing that he was not equipped to respond, on behalf of the organization, to the criticism that AFMC was too expensive.

Along with the change in mission, Babbitt outlined plans for structuring and operating AFMC's 2,000 person strong headquarters organization located at Wright-Patterson. What had been "mission areas" overseen by committees of general officers and senior civilians were to become "business areas" overseen by "chief operating officers." The business areas included supply, maintenance, scientific and technological research, and testing and evaluation.   Babbitt told the newly appointed chief operating officers (COO's), who continued to perform their other assigned responsibilities on the AFMC headquarters staff, that they were accountable to him, as Chief Executive Officer, for the efficiency and effectiveness of their respective business areas.   The Commander was not reluctant to say to his officer colleagues that he was applying a "business metaphor" to AFMC.

The details of the business metaphor were filled in soon thereafter.   In line with his reputation as a skilled practitioner of business methods, Babbitt distributed to members of his staff copies of *Accounting for Dummies,* a volume in a textbook series geared to helping readers get quickly up to speed on any given subject.   Breaking with custom, Babbitt made plain that his headquarters staff should know the language of

business accounting.   It soon became apparent that business areas were not only defined roles and responsibilities at AFMC headquarters, but would also be "accounting entities." Such entities are part of an organization's management control structure; their existence is part-and-parcel of the way most business and some governmental organizations define prerogatives and enforce responsibility.   For instance, the ideal-type division in a corporation is an accounting entity whose head enjoys substantial prerogatives but also accountability for attaining certain target levels for the division's financial performance.

Under Babbitt's predecessors, mission areas were not only overseen by committee rather than individuals, they were not accounting entities, either.   Budget information was organized by field activity and by type of Congressional appropriation, but not by business area. AFMC did not possess what an accounting professional or business executive would recognize as a management control structure, even though the command surely had a military command structure and budget system.   Applying the business metaphor meant filling this yawning gap.

A doctrinal teaching of management accounting and control is "know your costs." The business metaphor meant that AFMC personnel were to accept this dictum. In line with traditional cost accounting practices, Babbitt said that his COO's needed to know the costs of their businesses' outputs.   In managerial accounting terms, "outputs" were to be the "cost objects."   Posed in the abstract, the issue of whether AFMC should know the costs of its outputs was uncontroversial.   But COO's knew they had to address the issue in the particular, not just the abstract. And neither *output* nor *cost* were familiar concepts embedded in documents and administrative systems at AFMC when Babbitt arrived in Dayton in May 1997.

While the COO's were struggling to define outputs and measure costs, Babbitt was planning his next move. On the horizon was a major cycle of medium-range planning and budgeting activity, known as building the Air Force Program or "the POM." In the next cycle, spending plans would be established for fiscal years 2005-2006 and revised for fiscal years 2000-2004. In the recent past, AFMC headquarters had played a relatively passive role in the POM process. The units within AFMC submitted their requests, and the headquarters tended to bundle them together and send them to the Pentagon. Babbitt came to view the upcoming programming cycle as an opportunity to address the issue that AFMC was too expensive. Babbitt wanted to be able to deliver AFMC's POM to the Pentagon with the message that the Command had made provisions to "give money back to the Air Force." The implication was that AFMC headquarters, and the commander himself, would have to play an extremely active role in the upcoming programming cycle.

Meanwhile, Babbitt was refining his rhetoric about the business approach. In writing his own briefing charts for one occasion, the four-star general renamed his approach "cost management," which he described as the antithesis of conventional "budget management" in government. Cost management involved, for instance, taking steps to reduce costs per unit of output. Budget management, by contrast, involved spending all funds available (and no more) in a given fiscal year. In other circumstances, he might have used the term "performance management" rather than cost management. The rhetoric of business management gave way to cost management, with its more explicit reference to accounting and the mission of efficiency and effectiveness.

Within six months of assuming command, many of the elements of General Babbitt's "intervention" at AFMC were in place.[4]   Around command headquarters at Wright-Patterson, the whole vocabulary of businesses, chief operating officers, outputs, and costs was becoming more familiar, if still a source of regular discomfort and anxiety. Field commanders were exposed to the new lexicon and its associated practices at quarterly Commander's conferences. The executive team of COO's and others met on a weekly basis under the guise of General Babbitt to review business plans and their execution, which often involved the commander himself leading a discussion about the conceptual and technical issues involved in identifying outputs and measuring costs. The chief operating officers were locating their opposite numbers in the field units (called "centers").   The discourse of cost management was becoming fine-tuned, providing a way to describe what the command needed to do in order to accomplish its mission of efficiency and effectiveness: namely, to possess "the capacity to manage costs." Finally, the POM process had been identified as a major opportunity to deepen and widen the unfolding intervention: deepen, in the sense of pressuring AFMC to learn to manage costs now that outputs had been identified; and widen, in the sense of visibly engaging the issue of AFMC's excessive cost in corporate Air Force venues.

Stories from the Middle-stage of Babbitt's Intervention

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[4] The term "intervention" to describe the story of General Babbitt's tenure at AFMC, especially in relation to increasing up the capacity to manage costs, was introduced by one of the co-authors of this study in his capacity as a consultant to the commander.   The term stuck.

This prospectus is not the place to provide a full narrative account of the experience studied in this project. However, we can identify happenings that are to be explored in detail. For instance:

The ABC Costing Implementation Ritual. Within the first six months of the intervention, one business area joined with one field unit to initiate a large, multi-year, contractor-supported effort to develop an "activity based costing system." Those who were involved in initiating this effort, as well as onlookers, expected George Babbitt to be favorably impressed. ABC costing had established its credentials in the private sector as superior to traditional cost accounting, and many government agencies -- assisted by contractors -- were getting on the bandwagon. Around AFMC, many officers and officials had surmised that Babbitt was in favor of ABC costing. To their surprise, however, Babbitt displayed an agnostic attitude towards ABC costing. When the subject arose, he explained that the objective was to develop a capacity to manage costs, not to install a cost management system. ABC is mainly a cost management system, he observed; and the process of developing a particular application seemed to take longer than he was prepared to wait. The distinction between "managing costs" and having a "cost management system" was one that Babbitt had to insist upon on numerous occasions. To the discomfort of his subordinates, General Babbitt chose to hold them accountable for achieving an abstract goal -- the capacity to manage costs -- rather than for employing a technique or implementing a plan.

Building the POM. As Babbitt saw it, "cost management" called for a radical departure from conventional methods of expenditure planning. In traditional

incremental expenditure planning, the question was whether to increase or decrease spending relative to previously authorized levels.   Babbitt argued that a more rational approach to managing resources and performance would be to set targets for costs per unit of output.   When addressing internal audiences, giving money back to the Air Force meant becoming more efficient as measured by a planned reduction in unit costs. Babbitt directed his headquarters staff to develop a Program by setting targets for output costs.

A problem was that the accounting structure underlying the Air Force's programming and budgeting systems had nothing to do with AFMC's businesses, outputs, and unit costs.   The command's POM submission obviously had to make sense to the Pentagon. Translating from one accounting structure to the other was a nightmarish task for the programming staff at AFMC headquarters. When it was done, it turned out that AFMC's claim that it was voluntarily giving money back to the Air Force rang true.

Before the programming cycle began in earnest at Air Force headquarters, General Babbitt traveled back to the Pentagon to brief his approach.   The surprising news that AFMC would be coming in with a planned decrease in expenditures over the POM horizon was warmly welcomed.   The cost management argument was also considered worthy in itself.   Still, Babbitt recognized that his whole effort remained at risk. While the general officers were happy with what they heard, he knew that many programming decisions are made by less senior officers -- at least in the first instance. The virtues of cost management had little meaning in the context of the immediate task of the programmers who worked on the so-called "panels."   In many situations, these working-level programmers would be blind to the effects of their actions on the AFMC's

plans to lower unit costs.   Such would predictably occur, for instance, if a business

planned to spend more in the short run to achieve lower unit costs in later years.   In one

envisioned scenario, the proposed increase in spending would be evident to one group

of programmers, while the savings would be evident to another group.   The first group

could reject the proposed increase in spending, while the second group would naturally

accept the proposed decrease.   In that event, business plans for decreasing unit costs

would be undone.   Back at the command, it would look as though "cost management"

set AFMC up for what amounted to a budget cut.   Aware of this possibility, General

Babbitt requested that AFMC's program be treated separately from the normal process --

a request granted by the senior officers overseeing the programming process. AFMC's

own programmers still had to spend weeks at the Pentagon sorting out many

misunderstandings and conflicts.   The eventual result was, however, satisfactory to

General Babbitt; his intervention survived the high-wire act he put it through.

Handling Sensitivities about Roles and Responsibilities.   General Babbitt's

intervention did not include reorganizing the command as a whole or even the

directorate structure at the headquarters.   As a result, the chief operating officers were

charged with responsibility for managing their businesses, but they did not have

corresponding formal authority.   In this sense, businesses were much more like

accounting entities than divisions; and the result was that the hallowed principle that

"authority should match responsibility" was compromised.   Predictably, chief

operating officers found themselves in conflict with heads of field units -- and in a

somewhat weak position.   Although COO's could plead that they represented the four-

star down the hall, on some occasions field commanders reminded COO's of their

inferior rank, as when a one-star chief operating officer was in conflict with a three-star in the field.   Despite indications of widespread discomfort with these unusual organizational arrangements, General Babbitt simply did not retreat from his view that chief operating officers were accountable for the efficiency and effectiveness of their businesses; he was never overruled.

Once the intervention was well in hand, these sensitivities were openly discussed in a meeting of AFMC's executive team.   In preparing the session, a senior staff officer invited questions from the field.   In many cases, questioners' apparent desire was to dispel ambiguity in the situation, especially with respect to roles and relationships.   At the executive team meeting, Colonel Mark Borkowski read the questions to the commander and then noted his responses.   In answering, Babbitt often acknowledged the ambiguity but asserted that it could only be reduced by sacrificing cost management or by reorganizing, neither of which he was prepared to do.   The questions were sometimes rather pointed.   One question read: "If a three-star field commander and a one-star chief operating officer cannot reach an agreement, who wins?"   Babbitt's terse -- unexpected -- answer was, "they both lose."

As presented so far, the narrative history of AFMC under George Babbitt is sympathetic to the actions and intended outcomes of the story's main protagonist.   This favorable rendering of the event reflects the authors' own "standing volitions" (Lindblom 1990) concerning public management (which are similar to Babbitt's), as well as our peripheral involvement with the intervention in its first year.   As academic researchers, however, we are obliged to guard against biased reporting.   The chosen method for checking bias is to research and write about the same event from a contrary

vantage point -- in practice, from the perspective of some of the field organizations.   In effect, we intend to present what might be called a "counter-narrative" of the same event.   To illustrate:

The senior financial manager at a major field organization within AFMC viewed the intervention as a significant distraction from the work of implementing changes that were part of his own commander's longer-running intervention, the aims of which were to allow the field unit to achieve significant improvements in the management of acquisition programs of great import for the Air Force's overall strategic direction. This manager's experience of the intervention was mediated by how his counterpart at AFMC headquarters -- the Directorate of Financial Management -- responded to General Babbitt's actions.   What he experienced during the first six months of the intervention was the laying on of extensive financial reporting requirements, compliance with which absorbed a large proportion of his staff's time.   His headquarters counterpart defended the imposition of these reporting requirements on the grounds that General Babbitt had committed AFMC to achieve compliance with the government-wide Chief Financial Officers' (CFO)Act.   As far as the senior financial manager in the field was concerned, complying with the CFO Act did not contribute to learning to manage costs.   Indeed, the goal of complying with financial reporting requirements took precedence over work that might have led to achieving the more abstract goal of learning to manage costs.   Accordingly, the intervention was inherently flawed even in its own terms.

This sort of historical evidence is important for several reasons. First, what constitutes the "intervention" is a matter of interpretation -- which predictably varies with organizational position -- e.g., headquarters v. field. Second, and relatedly, what had been intended as a secondary element of the intervention -- directing compliance with the CFO Act -- emerged as a primary element at what might be called the implementation stage. Third, it suggests that elements of the intervention had an unintended, counter-productive effect -- i.e., by triggering effort to comply with financial reporting requirements, the intervention's potential to increase the capacity to manage costs was lessened. This aspect of the counter-narrative directs attention to the effects of organizational specialization (e.g., the fact that one action channel for implementing the intervention was populated by financial management specialists) as well as to the possibility that the intervention itself was poorly designed (e.g., by failing to make much of the fundamental distinction within the accounting discipline between financial reporting and management control). Fourth, it reminds the reader that the response to a given intervention depends on how it intersects with "events" transpiring at lower organizational levels. In this case, the AFMC intervention was viewed as a nuisance for the field unit's own ongoing intervention. The dynamic interplay between the narratives of different organizational levels is of analytic importance to the study of executive leadership and organizational change. Tracking the counter-narrative will ensure that evidence bearing on such analytic issues will be unearthed and therefore available for empirical analysis and critical discussion of this case.

The Narrative Structure of the AFMC Case

At this point, we are more sure of how to structure the main narrative than the counter-narrative. In this section, we report on decisions we have provisionally made about the structure of the main narrative, which has implications for data collection and analysis. The first decision is to bound the case temporally in accordance with General Babbitt's tenure as AFMC commander. Conceptualizing "the event" in terms of a period during which an organization is headed by a particular individual is typical in the literature on executive leadership in government. As the work is intended to contribute to the literature on executive leadership in government, this decision is appropriate. However, we realize that readers will be intensely curious about whether the process begun during Babbitt's intervention continued or was reversed after his departure from the scene. Therefore, the work will include some discussion of subsequent happenings under Babbitt's successor, Lester Lyles.

The second decision involves the selection of "central subjects." A central subject (Hull 1975) is a concrete or abstract entity that evolves during the course of the event around which the narrative is built. Complex narratives are structured around the evolution of more than one central subject -- which is the case here (see Figure 1). One central subject is George Babbitt's intervention at AFMC. This central subject is not the same as Babbitt himself; it is also not as formless as all the actions he took while AFMC commander. At any given moment during the event, the intervention was an interpretation of his current actions, in relation to past and prospective ones.[5] This interpretation naturally evolved as the intervention progressed, since different actions came into view and the flow of experience became more extensive. A challenge in writing about the evolution of this central subject is that not everyone always shared the

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[5] Here we borrow from Weick's (2001) "sense-making" perspective on organizations.

same interpretation of it, but that fact does not disqualify the intervention from serving as a central subject of the narrative history of AFMC in 1997-2000.
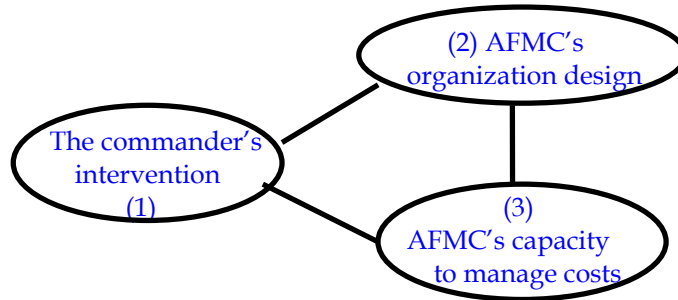

Figure 1.   Three Central Subjects of the Narrative History

The second central subject is AFMC as an organization, understood as a major unit within a nested system of organizational entities (including the Air Force, Department of Defense, and Federal government).   The specific way in which we conceive of the organization is as an "organization design." This concept is wider than the formal delineation of roles and responsibilities but narrower than the organizational situation as a whole, which includes the organization's tasks and culture.   The way we describe changes in AFMC 's organization design will reflect the way this concept is discussed in Mintzberg's, *Designing Effective Organizations: Structures in Fives* (1983). From this standpoint, the intervention led to both centralizing and decentralizing changes in the organization design; for instance, decisional prerogatives in the area of expenditure planning were selectively *centralized* from field units to AFMC headquarters, while such prerogatives were selectively *decentralized* from the Air Force

to AFMC. In terms of Mintzberg's models of organizational configuration, the intervention involved a modest shift from the machine bureaucracy to adhocracy configurations. As an indication that AFMC began to resemble an adhocracy, the chief operating officers came to work extremely closely with both the Financial Management Directorate and Plans and Programs Directorate and with their opposite numbers at the field level. The COO role -- as well as the unprecedented method for building the AFMC POM -- helped to create the liaison mechanisms among staff directorates and the middle line. Such liaison mechanisms define an adhocracy. Continuity in organization design will also be described precisely. Decision-making authority in the realm of budget execution was left unchanged, with the field units enjoying wide latitude, provided they followed the elaborate financial management rule regime of the Federal government and Defense Department. Furthermore, the formal plan of roles and responsibilities between headquarters and field units -- and among staff offices at Headquarters -- was left untouched. The grading of positions was stable as well, with field commands filled by two- and three-star generals and headquarters directorates filled with one- and two-star generals.

The third central subject is AFMC's capacity to manage costs.   This abstract entity deserves to be treated as a central subject insofar as the point of Babbitt's intervention (from his standpoint) was to increase AFMC's capacity to manage costs. Furthermore, it seems reasonable to regard the increase in this abstract quantity as the "terminal consequence" (Frankel 1957) of the story. Surely, the change in AFMC's organization structure is unsuitable as a terminal consequence for readers interested in the process by which an organization learns to manage performance. Downstream consequences -- such as the effect of the intervention on the operational Air Force -- are

beyond the scope of our interest in this book. AFMC's ability to manage costs, when Babbitt departed from the scene, seems a suitable way to conceive the terminal consequences of the story we tell. In the narrative history, we will be satisfied with establishing how this interpretation (and the counter-interpretation) evolved from the standpoint of various characters in the story. Whether such an interpretation appears reasonable from the standpoint of external observers is a matter taken up in a later part of the work.

Some readers of this Prospectus might be surprised that AFMC's organizational culture is not regarded as a central subject of the narrative history. The expectation behind this surprise is based on the assumption that the topic of this study is organizational change, an assumption that tends to imply that organizational sociology is a principal reference discipline. It is undoubtedly true that the topic involves both change and an organization, but sociology is not a principal reference discipline for defining the topic. The focal analytic topic is not organizational change (in a sociological sense), but rather change in *an organizational capacity*. The latter concept draws its meaning from the field of management rather than sociology; *the capacity to manage costs* is specifically drawn from the subdiscipline of management control. Selecting the third central subject is thus justified not only by the semantics of George Babbitt's intervention, but also by the conceptual structure of the field of management, to which we accord priority (over sociology) in this project.[6]

To purse this issue another step, we see organizational sociology (via its impact on the study of bureaucracy in political science) as providing ideas useful in explaining

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[6] Bardach (1998) is a recent work in public management that also accords analytic priority to "capacity" and seeks to account for changes in this quality. Presumably, Bardach considered management as a key reference discipline for conceptualizing the topic of his work, as well.

case evidence. The evidence shows that the effect of Babbitt's intervention on the capacity to manage costs was modest; the relative slippage between intention and outcome can be attributed, in part, to lack of enthusiasm for some aspects of the intervention by some senior officers at the field level. This lack of enthusiasm can be attributed, in part, to their beliefs, which underwrote their negative evaluation of the commitment to give money back to the Air Force and of the empowerment of headquarters staff officers to "manage businesses." Arguably, AFMC's organizational culture sustained these beliefs. In this sense, organizational culture describes a "social mechanism" (Hedström and Swedberg 1996) that was activated during the event and thereby mediated the effect of actions (i.e., the intervention) on outcomes (i.e., the organizational capacity to manage costs). Simply put, we regard organizational sociology as a reference discipline for the explanatory *methods* we employ, but consider management as a reference discipline for defining the *substantive topic* (i.e., the process by which a specific type of organizational capacity is created). In sum, the selection of the third central subject -- the capacity to manage costs -- is consistent with the choice of management control as the reference discipline for the substantive topic, while the narrative account of this subject's evolution will present evidence that is of analytical significance in sociologically-oriented studies of organizations.

A third decision involves the temporal structure within the defined event. The initial inclination is to periodize the event as follows: first, Babbitt's entry into AFMC, from May to September 1997; second, the intervention's evolution from rhetoric to an entity with concrete ongoing and prospective activities, from September 1997 to January 1998; third, the period during which the AFMC and Air Force Programs were

developed, February-June 1988; and the latter period, July 1988-April 2000. We suspect that this latter period will be subdivided once we learn more about it.

Beyond these matters, numerous other choices will have to be made. In making these choices, we will be sensitive to significant aspects of the experience from the standpoint of the subdiscipline of management control (such as the conceptual challenge of defining outputs) as well as from that of political science studies of executive leadership in government (such as Babbitt's proactive steps of "external management" to protect against the risk that the Air Force programming process would wreak havoc with his cost management approach at AFMC). We will also be sensitive to the target audience, which includes readers who tend to regard all military organizations as fundamentally different from civilian ones. The story is supposed to be an allegory for managing government agencies in general, not just for managing logistics and systems commands or military organizations. The text will therefore have to be written in a way to encourage readers to concentrate on the broader plot. We will also minimize use of acronyms and references to the rank of the individuals in the story (except where needed to describe organizational dynamics).

Wider Significance of the AFMC Case

As far as we know, the U.S. academic literature on public management does not include a single case study/narrative on the process of changing a mammoth organization's institutional rules and routines in the area of expenditure planning and financial management in order to increase its capacity to manage costs. Some teaching case studies have been written on the use of "performance management" techniques, such as Behn's well-known cases on Homestead Air Force Base. But this intervention

was directly concerned with improving of core business processes rather than the capacity to manage costs. Barzelay's *Breaking Through Bureaucracy* (1992) includes the experiences of the internal service activities of Minnesota's Department of Administration; the parallels with the AFMC case are actually striking. Apart from massive differences in the scale of the organizations' respective activities ($30 million dollars v. $30 billion), the interventions differed in their details: in Minnesota, ideas from quality service management were built into the intervention, whereas George Babbitt's intervention put forward ideas about management accounting and control (though even here the differences can be overdrawn). Moore's *Creating Public Value: Strategic Management in Government* (1995) includes cases where public managers intervened in organizations, but that volume does not include a case where the protagonist's objective is to enhance the organization's capacity to manage costs, specifically.

Similarity can be found in studies that do not deal with programmatic organizations, but rather with the center of government. For instance, Campbell and Halligan's (1992) study of the Labor Governments in Australia during the 1980s looks closely at an intervention authored by multiple protagonists, which led to changes in central agencies' organizational routines and a belief that the capacity to manage costs had increased. Zifcak's (1994) study of the UK Financial Management Initiative and Australia's Financial Management Improvement Program is similar in this respect. Article-length studies by academic accountants in the UK deal with the same topic as our study in the context of programmatic organizations. For a variety of reasons, however, readers in the US are not especially familiar with studies from and about foreign lands.

Undoubtedly, much has been written about performance management in government.   For example, this subject is treated at length in Jones and Thompson (1999). However, it is one thing to discuss management issues in the abstract, and quite another to study in detail how such issues were resolved in constructing particular interventions, and with what effect -- as we do here.   Looking at this particular historical event also helps to sensitize readers to a number of points.   For example:

- In this case, the potential of the intervention to lead to an increase in the organization's capacity to manage costs was linked to the fact that AFMC suffered from the reputation of being too expensive; the cost management initiative was partly a way to deal with an external environment that was potentially threatening to AFMC personnel.

- The intervention's potential to increase the organization's capacity to manage costs was also linked to Babbitt's selection of an abstract goal.   This aspiration could not be satisfied by specific actions -- for instance, kicking off an ABC costing study. At the same time, Babbitt acknowledged that progress towards the goal was being made by the successful completion of each step in the intervention (e.g., identifying outputs and building the POM).   Mark Borkowski, who was part of the intervention as division chief for programming, has described this aspect of the intervention in almost Platonic terms: the capacity to manage costs was like an ideal form, which Babbitt himself understood; any specific action was "a mere shadow of the ideal". This aspect of the intervention seems extremely conducive for organizational

learning, and may prove to be one of the most analytically significant aspects of this event.

- The intervention did not include reorganizing the command, even though AFMC's capacity to manage costs was arguably constrained by the inherited structure.   What Babbitt ideally wanted was a divisionalized structure. The particular solution to the (recurring) problem of pursuing cost management in a machine bureaucracy had many elements, including Babbitt's steady insistence that chief operating officers were accountable for the efficiency and effectiveness of their businesses.   Another element was Babbitt's clarity of mind: he was not attempting to achieve a perfect organization design or management control system; his consistent objective was to improve upon a baseline understood as AFMC's unacceptably low capacity to manage costs. The problem of trying to improve the capacity to manage costs in a machine bureaucracy, when the costs of reorganizing are judged prohibitive, is not unique to AFMC.   In situations of this type, the way in which AFMC moved toward the adhocracy form might count as a "smart practice" in Bardach's (1998) terms.

From Narrative History to Social Science

Narrative history is not the sole methodological approach used in this project to address the substantive topic on the basis of the experience studied. Another is analytic narrative (see Table 1 for a description of alternative methodological approaches in political science).   The term "analytic narrative" is drawn from a important recent book in political science (Bates et al. 1998). An analytic narrative is like narrative history in that historical events are studied.   However, authors of analytic narratives are under the

obligation to demonstrate, rather than exhibit, an explanation.   Demonstrating an explanation means providing an explicit explanatory argument about why particular "outcomes" occurred during an event.   Explicit arguments include claims about how outcomes are causally related to both prior happenings and intersecting events (Abbott 1992).   Such claims are formulated and justified by reference to theoretical models of social relations and processes.   Studies of policy change and executive leadership in government commonly make use of such theoretical models in analyzing historical evidence and crafting analytic narratives; classic examples are Graham Allison's *Essence of Decision* (Allison 1971) and Pressman and Wildavsky's *Implementation* (1973).   This methodological approach was lacking from some writings on executive leadership in government published in the 1990s, as Laurence Lynn (1996) has aptly contended as part of a larger critique of research in the field of public management.   We intend to heed what we take as Lynn's advice to retrieve this methodological approach from an earlier period in the field of public administration and management.[7] As for the specific theoretical models to be employed, we will consider ones that emphasize belief formation and maintenance, conflict-generation and -resolution, and incentive-induced behavior.   We will seek to relate the specific models we choose to employ to those discussed in recent works on public management (e.g., Heifetz 1994, Moore 1995, and Bardach 1998).

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[7] This advice has already been followed in Barzelay (2000) and in Barzelay and Fuechtner 2000), and is currently being followed by Michael Barzelay and Colin Campbell in preparing a book manuscript on executive leadership in government, provisionally entitled, "Managing with Foresight: Strategic Planning in the U.S. Air Force," under contract with the Brookings Institution Press.   The analytic narrative was a principal methodology and form of writing in Barzelay (1986), as well.

Analytic narrative has the advantage over narrative history in that an explicit, theoretically-informed explanatory argument is provided. To gain full value from this approach (with respect to furthering understanding of the substantive topic), however, it is useful to consider a given experience in the light of other cases. By "other cases" is meant instances of the same analytically-defined historical phenomenon. Our project therefore includes an effort to compare the AFMC experience under George Babbitt with other interventions intended to increase organizations' capacity to manage costs. These other interventions are described and analyzed in Dent (1991), Campbell and Halligan (1992), Barzelay (1992), Zifcak (1994), and Llewellyn (1999). The process of case comparison is the search for a coherent account of similarities and differences among cases (Ragin 1987). The result of this process is limited historical generalizations -- in this case, about interventions intended to increase organizations' capacity to manage costs.[8]

From Case Study to Critical Discussion of Performance Management

Following the style of Barzelay's books (1992, 2000), the volume will include a critical discussion of what-to-do questions about public management, posed in the abstract. The broad topic of this critical discussion (Walton 1992) is performance management. The current plan is to use an account of Babbitt's own views as a way of constructing the discussion, in the first instance. The reader will generally be familiar with these views from the narrative history, but here they will be stated and analyzed as "doctrinal arguments" (Barzelay 2001). Then we will indicate doubts or objections that

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[8] In effect, the intellectual task is to compare narratives (Abbott 1992); such comparative work may require reanalyzing the comparison cases using the explanatory models we employ to construct the AFMC analytic narrative.

academic and other readers would predictably raise about Babbitt's argumentation. These doubts or objections will include:

- "Babbitt's approach is old fashioned -- the accounting profession and business practice have moved well beyond his version of cost/performance management." This argument will include reference to activity-based costing/activity-based management and target costing.

- "Babbitt's approach is retrograde because it does not advocate using a 'balanced scorecard.'"

- "Babbitt's approach may have been appropriate in AFMC, which is basically a production organization, but is not transferable to other governmental situations, such as procedural or craft organizations."

- "Babbitt's approach is passé. A more appropriate, up-to-date approach is 'risk management.' This approach is particularly appropriate in an environment like defense."

By detailing and addressing these objections -- using the medium of fictional dialogues -- readers will gain insight into ongoing controversies in the field of public management. Also, these issues are the sort of matters that public managers need to take a view on if they find themselves inclined to formulate an intervention based on performance management doctrines.

Conclusion

In sum, the proposed book project is intended as a substantive contribution to the field of public management, especially to scholarship about the subjects of managing government operations and executive leadership in government.   The central topic is the organizational process of learning to manage costs.   This abstractly conceived process was manifested in particular form during an historical event -- namely, happenings at the Air Force Materiel Command (AFMC) in 1997-2000, while George Babbitt was commander.   In the first instance, this event is studied and analyzed using the methodology of narrative history. The central subjects of the narrative history of the AFMC event are the commander's organizational intervention, AFMC's organization design, and AFMC's capacity to manage costs.   The narrative historical approach is complemented by a social scientific explanation of the evolution of AFMC's capacity to manage costs -- the product of this effort is called an analytic narrative. An attempt will be made to compare the analytical narrative of the AFMC event with analytical narratives about similar experiences in public management (not just in the US), with the aim of formulating limited historical generalizations about interventions intended to increase governmental organizations' capacity to manage performance, generally, and costs, specifically.   Finally, the book will turn to the wider professional debate about performance management in government, with the intent of clarifying differences in considered opinions about what-to-do management issues, posed in the abstract.   All told, the volume is designed to stimulate interest in the field and subjects identified above, as well as to provide readers with well-told relevant stories, social scientific analysis of significant aspects of an experience, limited generalizations, and a lively

discussion of some of the most important issues in contemporary public sector

management.

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